



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION V  
233 NORTH MICHIGAN, SUITE 1360  
CHICAGO, IL 60601

July 17, 2012

**TO:** Kay Willmoth  
Regional Program Manager, Office of Head Start  
Administration for Children and Families

**FROM:** /Sheri L. Fulcher/  
Regional Inspector General for Audit Services

**SUBJECT:** Lake County Family YMCA Claimed Unallowable Early Head Start Costs  
(A-05-11-00055)

The attached final report provides the results of our review of *Lake County Family YMCA Claimed Unallowable Early Head Start Costs*. This review was requested by the Administration for Children and Families.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Mike Barton, Audit Manager, at (614) 469-2543 or through email at [Mike.Barton@oig.hhs.gov](mailto:Mike.Barton@oig.hhs.gov). We look forward to receiving your final management decision within 6 months. Please refer to report number A-05-11-00055 in all correspondence.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION V  
233 NORTH MICHIGAN, SUITE 1360  
CHICAGO, IL 60601

July 17, 2012

Report Number: A-05-11-00055

Ms. Lynda Chott  
President and CEO  
Lake County Family YMCA  
2000 Western Avenue  
Waukegan, IL 60087

Dear Ms. Chott:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Lake County Family YMCA Claimed Unallowable Early Head Start Costs*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mike Barton, Audit Manager, at (614) 469-2543 or through email at [Mike.Barton@oig.hhs.gov](mailto:Mike.Barton@oig.hhs.gov). Please refer to report number A-05-11-00055 in all correspondence.

Sincerely,

/Sheri L. Fulcher/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Kay Willmoth  
Regional Program Manager  
Office of Head Start  
Administration for Children and Families  
U.S. Department of Health and Human Services  
Region V  
233 North Michigan Avenue, Suite 400  
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**LAKE COUNTY FAMILY YMCA  
CLAIMED UNALLOWABLE  
EARLY HEAD START COSTS**



Daniel R. Levinson  
Inspector General

July 2012  
A-05-11-00055

# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

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at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. Early Head Start promotes healthy prenatal outcomes, enhances the development of infants and toddlers, and promotes healthy family functioning.

Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted on February 17, 2009 provided an additional \$1.1 billion to expand the Early Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

Lake County Family YMCA (Lake County) is a 114-year-old, non-profit organization that established an Early Head Start program in 2002 to assist disadvantaged families in the community. Lake County's Early Head Start program is funded primarily through Federal grants. During our review period, Lake County claimed Early Head Start program costs totaling \$662,277 for regular operations from August 1, 2009, through July 31, 2010, and Recovery Act costs of \$246,504 for expansion from December 1, 2009, through September 29, 2010, and \$66,650 for cost-of-living adjustment and quality improvement from July 1, 2009, through September 30, 2010. Lake County also receives funds to operate the program from the Illinois Department of Human Services and other sources.

We performed this review in response to a request from ACF.

### **OBJECTIVE**

Our objectives were to determine whether Lake County's expenditures were allowable under the terms of the grant and Federal regulations, and to determine whether Lake County maintained adequate financial records to support Early Head Start and Recovery Act program expenditures reported on its final Financial Status Reports (SF-269), in accordance with Federal requirements.

### **SUMMARY OF FINDINGS**

Lake County claimed unallowable Early Head Start grant expenditures totaling \$975,431 because it did not adequately document expenses. Lake County did not maintain adequate financial records to support Early Head Start and Recovery Act program expenditures on its final Financial Status Reports (SF-269), in accordance with Federal requirements.

Lake County did not ensure that financial reporting and payroll distribution complied with Federal requirements. Specifically, Lake County could not adequately identify the funding source and application of funds or its Early Head Start grant expenditures. Therefore, the entire \$975,431 was unallowable for Federal reimbursement because the expenditures were not adequately documented, and we could not verify that Early Head Start grant funds were used for allowable expenditures. These unallowable claims occurred because Lake County did not:

- set up its accounting system according to 45 CFR § 74.21(b)(1) and (2), which requires systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities, and account for grant funds separately from all other funds;
- adequately support salaries and wages using personnel activity reports; and
- reconcile expenditures with budgeted costs.

Because of these deficiencies, Federal program funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

## **RECOMMENDATIONS**

We recommend that OHS:

- require Lake County to refund \$975,431 to the Federal Government for inadequately supported costs, or work with Lake County to resolve the lack of adequate records that identify the source and application of \$975,431 in claimed Federal program funds;
- impose special award conditions on Lake County so that it takes corrective actions to ensure that:
  - financial records adequately identify the source and application of Federal program funds; and
  - payroll distribution policies, procedures, and processes reflect actual work performed.

## **LAKE COUNTY FAMILY YMCA'S COMMENTS**

In written comments on our draft report, Lake County concurred with our findings and described actions it has taken or plans to take to address them. However, Lake County stated that it “does not wish to or intend to forfeit” the \$975,431. Lake County’s comments are included in their entirety in Appendix A.

## **ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS**

In written comments on our draft report, ACF generally concurred with the first recommendation and responded that the second and third recommendations were no longer relevant as Lake County is scheduled to relinquish the Early Head Start grant effective July 31, 2012. With regard to the first recommendation, ACF did not support the refunding of \$975,431, but will work with Lake County to resolve the lack of adequate records that identify the source and application of the Federal funds. ACF stated that “disallowance of the total grant is too severe a remedy and does not consider the benefits the program afforded the community. ... The issue identified in the audit is associated more with the proper allocation and documentation of costs among the funding sources used to support EHS services as opposed to claiming unallowable activities.” With regard to the second and third recommendation, ACF will continue to work with Lake County to ensure financial records adequately identify the source and application of Federal program funds; and payroll distribution policies, procedures, and processes reflect actual work performed. In addition, ACF will instruct the grantee to direct its independent auditor to review each of the audit findings and recommendations in the OIG report as part of the A-133 single audit for the period ending August 31, 2012. ACF’s comments are included in their entirety as Appendix B.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Federal Early Head Start Program**

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. The Early Head Start program provides grants to public and private non-profit and for-profit agencies to provide a wide range of services to economically disadvantaged children and families, including promoting healthy prenatal outcomes, enhancing the development of infants and toddlers, and promoting healthy family functioning.

Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted on February 17, 2009 provided an additional \$1.1 billion to expand the Early Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

#### **Lake County Family YMCA**

Lake County Family YMCA (Lake County) is a 114-year-old non-profit organization that established an Early Head Start program in 2002 to assist disadvantaged families in the community. Lake County currently provides services to 102 infants, toddlers, and pregnant women.

Lake County's Early Head Start program is funded primarily through Federal grants. During our review period, Lake County claimed Early Head Start program costs totaling \$662,277 for regular operations from August 1, 2009, through July 31, 2010, and Recovery Act costs of \$246,504 for expansion from December 1, 2009, through September 29, 2010, and \$66,650 for cost-of-living adjustment (COLA) and quality improvement from July 1, 2009, through September 30, 2010. Lake County also receives funds to operate the program from the Illinois Department of Human Services and other sources.

#### **Federal Requirements for Early Head Start Grantees**

The Head Start Performance Standards (45 CFR §§ 1301—1311) establish regulations applicable to program operation, administration and grants management for all grants awarded under the Head Start Act. The allowability of costs incurred by non-profit organizations is determined in

accordance with the provisions of 2 CFR pt. 230 (Office of Management and Budget (OMB) Circular A-122), *Cost Principles for Non-Profit Organizations*.

Pursuant to 45 CFR § 74.21(b), grantees are required to maintain financial management systems that provide for, among other things:

- Accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program in accordance with the reporting requirements set forth in 74.52....
- Records that identify adequately the source and application of funds for HHS-sponsored activities....
- Comparison of outlays with budgeted amounts for each award....[and]
- Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

Pursuant to 2 CFR pt. 230, Appendix A, § A.2, “[t]o be allowable under an award, costs must ... be adequately documented.” Additionally, 230, Appendix B, § 8.m(1) states, the distribution of salaries and wages must be supported by personnel activity reports, unless the cognizant agency (the federal agency responsible for negotiating and approving indirect cost rates) has approved a substitute system in writing.

### **Special Award Conditions**

Pursuant to 45 CFR § 74.14, ACF may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

Our objectives were to determine whether Lake County’s expenditures were allowable under the terms of the grant and Federal regulations, and to determine whether Lake County maintained adequate financial records to support Early Head Start and Recovery Act program expenditures reported on its final Financial Status Reports (SF-269), in accordance with Federal requirements.

### **Scope**

We performed this limited scope review in response to a request from ACF. Therefore, we did not perform an overall assessment of Lake County’s internal control structure. Rather, we reviewed only the internal controls that pertained to our objective. Our review period was July 1,

2009, through September 30, 2010. We reviewed \$975,431 or 100 percent of costs claimed by Lake County during the review period.

We performed our field work at Lake County in Waukegan, Illinois during March and April 2011.

## **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations pertaining to Early Head Start operations and Recovery Act projects, and the Federal Head Start program guidance related to reporting expenditures for regular operations;
- reviewed OHS program and policy announcements for the Early Head Start program;
- reviewed Lake County's by-laws, Board of Director meeting minutes, and organizational chart;
- reviewed Lake County's policies and procedures;
- reviewed Lake County's audited and unaudited financial statements and supporting documentation;
- held discussions with Lake County officials related to policies, procedures, and methodology for claiming Early Head Start program expenditures; and
- obtained and reviewed final annual Financial Status Reports (SF-269) for:
  - August 1, 2009, through July 31, 2010 for Early Head Start operations;
  - December 1, 2009, through September 29, 2010 for Recovery Act expansion; and
  - July 1, 2009, through September 30, 2010 for Recovery Act COLA and quality improvement.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **FINDINGS AND RECOMMENDATIONS**

Lake County claimed unallowable Early Head Start grant expenditures totaling \$975,431 because it did not adequately document expenses. Lake County did not maintain adequate

financial records to support Early Head Start and Recovery Act program expenditures on its final Financial Status Reports (SF-269), in accordance with Federal requirements.

Lake County did not ensure that financial reporting and payroll distribution complied with Federal requirements. Specifically, Lake County could not adequately identify the funding source and application of funds or its Early Head Start grant expenditures. Therefore, the entire \$975,431 was unallowable for Federal reimbursement because the expenditures were not adequately documented, and we could not verify that Early Head Start grant funds were used for allowable expenditures. These unallowable claims occurred because Lake County did not:

- set up its accounting system according to 45 CFR § 74.21(b)(1) and (2), which requires systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities, and account for grant funds separately from all other funds;
- adequately support salaries and wages using personnel activity reports; and
- reconcile expenditures with budgeted costs.

Because of these deficiencies, Federal program funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

## **UNALLOWABLE COSTS**

### **Federal Requirements**

Pursuant to 2 CFR pt. 230 (OMB Circular A-122), Appendix A, § A.2, “[t]o be allowable under an award, costs must ... [b]e adequately documented.”

The Standards for Financial Management Systems found at 45 CFR § 74.21, establish regulations for grantees to maintain financial management systems. Grantees’ financial management systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program (45 CFR § 74.21(b)(1)); must provide records that identify adequately the source and application of funds for HHS-sponsored activities (45 CFR § 74.21(b)(2)); must ensure that accounting records are supported by source documentation (45 CFR § 74.21(b)(7)); and must provide effective control over and accountability of all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes (45 CFR § 74.21(b)(3)). Grantees also must have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)).

According to 2 CFR pt. 230, Appendix B, § 8.m, the distribution of salaries and wages must be supported by personnel activity reports, unless a substitute system is approved in writing by the cognizant agency (the federal agency responsible for negotiating and approving the indirect cost

rate). The activity reports maintained by nonprofit organizations must meet the following standards:

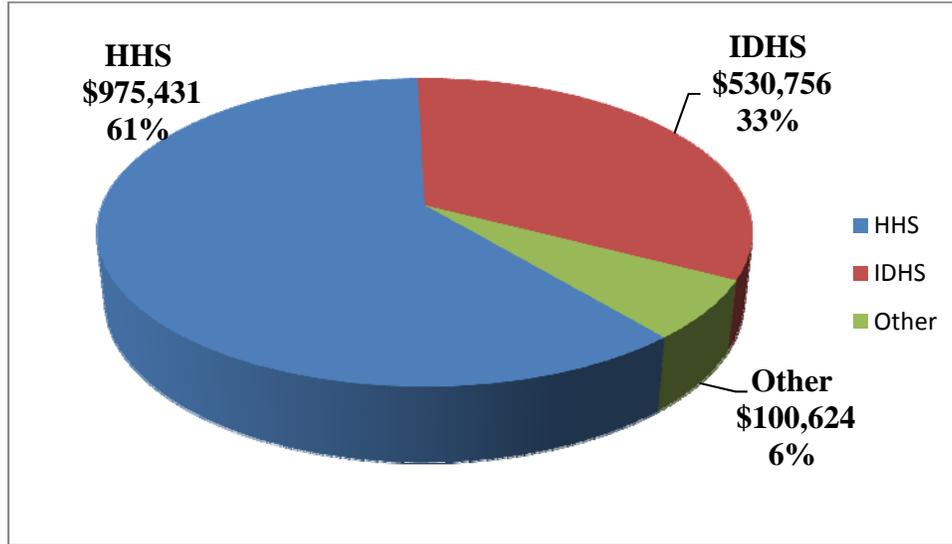
- reflect an after-the-fact distribution of the actual activity of each employee,
- account for the total activity for which each employee is compensated,
- be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed, and
- be prepared at least monthly and coincide with one or more pay periods.

### **Final Financial Status Reports Not Supported**

Lake County could not adequately identify the funding source and application of funds or its Early Head Start grant expenditures. Therefore, the grant expenditures were unallowable for Federal reimbursement because they were not adequately documented, and we could not verify that Early Head Start grant funds were used for allowable expenditures. These unallowable claims occurred because Lake County did not set up its accounting system according to 45 CFR § 74.21(b), which requires systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities, and account for grant funds separately from all other funds.

Lake County's Early Head Start final Financial Status Reports (SF-269) were not supported by accounting records and therefore do not reflect a current, accurate, and complete reporting of Federal expenditures. Lake County's final SF-269s for 3 Federal grants (i.e., regular operations, Recovery Act expansion, and Recovery Act COLA and quality assurance), totaled \$975,431 in Federal expenditures. Lake County's accounting records identified \$1,479,858 in total Early Head Start program expenditures. The program expenditures were funded by HHS, the Illinois Department of Human Services (IDHS), and other revenue sources in the amount of \$1,606,811, as shown in Figure 1.

**Figure 1: Lake County's Early Head Start Funding**



### **Inadequate Payroll Distribution Process**

Even if Lake County's accounting system separately accounted for funds by source, payroll costs totaling \$668,606 would have been unallowable because Lake County's payroll distribution process did not provide an after-the-fact certification of actual activity performed by salaried employees for the period from July 2009 through September 2010. Lake County claimed \$668,606 in salaries and wages that were not supported by personnel activity reports.

Lake County did not have procedures to ensure that its payroll distribution process (1) resulted in an allocation that reflected actual work performed by staff at least on a monthly basis and (2) identified and segregated non-Federal activity. As a result, we had no assurance that charges for salaries and wages of \$668,606 were in support of the Federally funded Early Head Start grants.

## **COMPARISON OF EXPENDITURES TO BUDGETED COSTS**

### **Federal Requirements**

Pursuant to 45 CFR § 74.21(b), grantees are required to maintain financial management systems that provide for a comparison of outlays with budgeted amounts for each award.

### **Lack of Adequate Financial Records**

Lake County did not ensure that expenditures reconciled to approved budgeted costs. The accounting records quantified all program expenditures from August 1, 2009 through July 31, 2010, but did not segregate expenditures between Federal and non-Federal funding sources. Therefore, Lake County was unable to compare Federal budgeted costs to actual Federal expenditures.

## **RECOMMENDATIONS**

We recommend that OHS:

- require Lake County to refund \$975,431 to the Federal Government for inadequately supported costs, or work with Lake County to resolve the lack of adequate records that identify the source and application of \$975,431 in claimed Federal program funds;
- impose special award conditions on Lake County so that it takes corrective actions to ensure that:
  - financial records adequately identify the source and application of Federal program funds; and
  - payroll distribution policies, procedures, and processes reflect actual work performed.

## **LAKE COUNTY FAMILY YMCA’S COMMENTS**

In written comments on our draft report, Lake County concurred with our findings and described actions it has taken or plans to take to address them. However, Lake County stated that it “does not wish to or intend to forfeit” the \$975,431. Lake County’s comments are included in their entirety in Appendix A.

## **ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS**

In written comments on our draft report, ACF generally concurred with the first recommendation and responded that the second and third recommendations were no longer relevant as Lake County is scheduled to relinquish the Early Head Start grant effective July 31, 2012. With regard to the first recommendation, ACF did not support the refunding of \$975,431, but will work with Lake County to resolve the lack of adequate records that identify the source and application of the Federal funds. ACF stated that “disallowance of the total grant is too severe a remedy and does not consider the benefits the program afforded the community. ... The issue identified in the audit is associated more with the proper allocation and documentation of costs among the funding sources used to support EHS services as opposed to claiming unallowable activities.” With regard to the second and third recommendation, ACF will continue to work with Lake County to ensure financial records adequately identify the source and application of Federal program funds; and payroll distribution policies, procedures, and processes reflect actual work performed. In addition, ACF will instruct the grantee to direct its independent auditor to review each of the audit findings and recommendations in the OIG report as part of the A-133 single audit for the period ending August 31, 2012. ACF’s comments are included in their entirety as Appendix B.

# **APPENDIXES**

**APPENDIX A: LAKE COUNTY FAMILY YMCA'S COMMENTS**



FOR YOUTH DEVELOPMENT®  
FOR HEALTHY LIVING  
FOR SOCIAL RESPONSIBILITY

April 18, 2012

Report Number A-05-11-00055 – April 2012

Ms. Sheri L. Fulcher  
Regional Inspector General  
For Audit Services  
Office of Audit Services, Region V  
233 North Michigan Avenue  
Suite 1360  
Chicago, IL 60601

Dear Ms. Fulcher

Attached you will find the Lake County Family YMCA response to the Office of Inspector General (OIG) draft report entitled Lake County Family YMCA Claimed Unallowable Early Head Start Costs.

If you have any questions or comments about this report, please call me at 847-367-6797 or through email at [LChott@ymcalakecounty.org](mailto:LChott@ymcalakecounty.org).

Sincerely,

Lynda Chott  
CEO  
Lake County Family YMCA

**LAKE COUNTY FAMILY YMCA**

**Central Lake YMCA**  
700 Lakeview Parkway  
Vernon Hills, Illinois 60061  
P 847 367 6797 F 847 367 5855

[www.ymcalakecounty.org](http://www.ymcalakecounty.org)

**Northern Lake YMCA**  
2000 Western Avenue  
Waukegan, Illinois 60087  
P 847 360 9622 F 847 623 2386

**Early Head Start**  
1500 Sunset, Suite B  
Waukegan, Illinois 60087  
P 847 336 2196 F 847 336 3084

**Lake County Family YMCA Response to: Office of Inspector General (OIG),  
draft report entitled "Lake County Family YMCA Claimed Unallowable Early  
Head Start Costs"**

**Report number: A-05-11-00055 - April 2012**

***Lake County did not maintain adequate financial records to support Early Head Start and recovery Act program expenditures on its final Financial Status Reports (SF-269), in accordance with Federal requirements. The grantee's financial management system did not adequately segregate expenditures by funding source. As a result, the grantee's SF 269 reports for regular operations, Recovery Act expansion, and recovery Act COLA and quality assurance grants may not reflect a current, accurate, and complete reporting of Federal Expenditures.***

**Recommendation:**

*OHS require Lake County to refund \$975,431 to the Federal government for inadequately supported costs, or work with Lake County to resolve the lack of adequate records that identify the source and application of \$975,431 in claimed Federal program funds.*

**Response:**

The Lake County Family YMCA concurs with the Office of Inspector General (OIG) finding.

In an effort to increase the efficiency and effectiveness of the YMCA, reorganization was put into place that called for a downsizing, which included the business office. The prior CFO was on board since the inception of our Early Head Start program in 2001. There was not adequate succession planning for such a vital role. Much of the knowledge concerning fiscal administration of the grant was lost when the CFO left. The Lake County Family YMCA is committed to providing the needed quality services to the children and families in our community. In fact, the grantee has recently been approved for additional funds to enhance the home base services to the families in the Waukegan community.

Lake County Family YMCA has agreed to work with OHS to resolve the lack of adequate recordkeeping and does not wish to or intend to forfeit the \$975,431. We are currently working with OHS and ACF to receive additional on-going training and technical assistance in order to establish and help maintain a financial management system that adequately identifies the source and application of funds for HHS sponsored activities.

The Lake County Family YMCA has also received training and technical assistance dollars (\$12,180) in order to enhance the fiscal knowledge and responsibility of program as well as fiscal staff.

Trainings will include:

1. Introduction to Fiscal Management, Advanced Fiscal Management and an Annual Financial Manager's Conference.
2. On-Site Training to establish fiscal tracking system that best fits the needs of the YMCA and EHS program.
3. Training on Federal Regulation requirements for 45 CFR, Cost Principles, Head Start Performance Standards, and the Head Start Act.

The following first steps are completed:

- Hired an interim fiscal consulting firm to assist with development and implementation of an effective internal control system
- Hired a new Director of Finance
- Worked directly with ACF who is providing an on-site fiscal consultant to identify appropriate cost allocation among program options and grants, recommendation of fiscal staff structure and fiscal reporting requirements through off-site and on-site TA assistance.

The following step is in progress:

- Establish internal controls and a financial reporting system to track federal budgeted costs to actual federal expenditures.

***The grantee did not ensure that expenditures reconciled to approved budgeted costs. The accounting records quantified all program expenditures for August 1, 2009 through July 31, 2010, but did not segregate expenditures between Federal and non-Federal funding sources. Therefore, the grantee was unable to compare Federal budgeted costs to actual Federal expenditures.***

**Recommendation:**

*The grantee maintains financial records that adequately identify the source and application of Federal program funds.*

**Response:**

The Lake County Family YMCA concurs with the Office of Inspector General (OIG) finding.

The Lake County Family YMCA is committed to improving the internal controls of the fiscal department and will ensure the safeguard the ACF Federal funds in order to serve the families of the EHS program.

The process has begun with regard to following all 45 CFR requirements beginning with the changes listed above.

A fiscal consultant is working with the Director of Finance and the EHS Executive Director to establish and maintain a financial management system that adequately identifies the source and application of Federal program funds, and provides for comparison of outlays with budgeted costs for each award.

***The grantee did not ensure that its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees for the period from July 2009 through September 2010. The grantee claimed \$668,606 in salaries and wages, but did not support the claims with personnel activity reports. The grantee did not use monthly after-the-fact distribution that appropriately allocates administrative personnel salaries in accordance with Federal requirements.***

**Recommendation:**

*Develop payroll distribution policies, procedures and processes that reflect actual work performed.*

**Response:**

The Lake County Family YMCA concurs with the Office of Inspector General (OIG) finding.

The Lake County Family YMCA will develop and implement policies, procedures, and processes for payroll distribution that reflect actual work performed and will include the following:

- A. Time based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages will be supported by personnel activity reports.
- B. Reports will reflect the distribution of activity of each employee and will be maintained for all staff members. The reports will reflect an after-the-fact determination of the actual activity of each employee, and account for the total activity for which the employees are compensated.
- C. The reports will be signed by the individual employee or and responsible supervisory staff having first hand knowledge of the activities performed by the employee.

## APPENDIX B: ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS



### Department of Health and Human Services

*Administration for Children and Families*

*Office of Head Start*

*Region V*

Illinois • Indiana • Michigan • Minnesota • Ohio • Wisconsin

233 North Michigan Avenue, Suite 400  
Chicago, Illinois 60601-5519

Telephone (312) 353-4237  
Fax (312) 353-2204

**Date:** June 7, 2012

**To:** Sheri Fulcher, Regional Inspector General for Audit Services  
Office of Inspector General

**From:** Kay Willmoth, Regional Program Manager  
Office of Head Start

Eric P. Staples, Regional Grants Management Officer  
Office of Grants Management

**Subject:** CIN A-05-11-00055 Audit Response

**Grantee:** Lake County Family YMCA

The Office of Inspector General (OIG), Office of Audit Services, provided the draft audit report for Lake County Family YMCA (Lake County), Common Identification Number (CIN) A-05-11-00055, to the Department of Health and Human Services (DHHS), Administration for Children and Families (ACF), Office of Head Start (OHS) for comments on May 10, 2012. The audit report covered the period August 1, 2009 through September 30, 2010 and examined expenditures under three separate grants awarded to Lake County during that period, specifically Grant Numbers 05CH8279, 05SE8279 and 05SH8279. The three recommendations identified in the draft audit report are addressed below.

#### Recommendation 1:

**The draft audit report recommends OHS require Lake County to refund \$975,431 to the Federal government for inadequately supported costs, or work with Lake County to resolve the lack of adequate records that identify the source and application of \$975,431 in claimed Federal program funds.**

OHS and the Office of Grants Management (OGM) do not concur with the recommendation for Lake County to refund \$975,431 to the Federal government. However, we concur with the recommendation to work with Lake County to resolve the lack of adequate records that identify the source and application of \$975,431 in Federal funds. While we fully agree on the importance of Lake County's compliance with the applicable financial regulations, disallowance of the total grant is too severe a remedy and does not consider the benefits the program afforded the community. Lake County currently receives \$945,185 in Federal Head Start funds to provide services to 126 infants, toddlers and pregnant women and operates at one of the lowest cost per child

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averages nationally. Lake County's average cost per child is \$7,501, which is 67 percent of the national cost per child average of \$11,190. Thus, the grantee is dependent on other sources of funding such as State child care subsidy assistance to support the full cost of programming. The issue identified in the audit is associated more with the proper allocation and documentation of costs among the funding sources used to support EHS services as opposed to claiming unallowable activities.

Further, we have reasonable assurance that EHS services required by the grant were performed and low income children and families of Lake County benefited from the program. Program records and documents confirm that Lake County maintained full funded enrollment throughout the audit period. The annual Program Information Report (PIR) confirmed key services such as medical screenings and treatment, mental health consultation and referral of children with suspected disabilities to the early intervention agency were provided for children, and 44 pregnant women received a variety of services. The grantee maintained appropriate staffing ratios and sufficient management oversight during the period. Thus, expected services under the Head Start Act and Performance Standards were delivered to children and families.

Also, OHS provided extensive training and technical assistance to Lake County to ensure the grantee adequately documents its financial records. The initial technical assistance consultation occurred the month prior to the OIG's on site review, and was followed by multiple days of consultation between April and October 2011. The consultant reports indicate the findings identified in OIG's draft report were the areas of focus by the fiscal consultants. The consultant reports indicate plans were developed to improve financial procedures. Subsequent to the training and technical assistance provided by OHS, Lake County contracted with a fiscal consultant for assistance in refining the fiscal procedures and ensuring appropriate ongoing implementation. Thus, steps were implemented by Lake County to improve the adequacy of its financial records.

#### **Recommendation 2:**

**The draft audit report recommends OHS impose special award conditions on Lake County so that it takes corrective actions to ensure that financial records adequately identify the source and application of Federal program funds.**

On April 20, 2012, the OHS received notification of Lake County's decision to relinquish the EHS grant effective July 31, 2012. Thus, no further grant awards will be issued to Lake County. The recommendation for the OHS and OGM to impose special award conditions is now moot. However, the OHS and OGM continue to work with Lake County to ensure financial records adequately identify the source and application of Federal program funds. As noted in the preceding discussion, extensive fiscal training and technical assistance was provided to Lake County. Recent SF-425 Federal Financial Reports reflect improvements in the agency's understanding and documentation of fiscal requirements. Changes in the cash management procedures require the drawdown of funds in conjunction with the accounts payable and payroll schedules based on anticipated outlays. Lake County also implemented the use of new grants management

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software to guarantee sufficient financial documentation and reporting. Further, the agency improved its accounting procedures manual to include the review and approval of all asset and liability reconciliations and account balances. Thus, sufficient improvements were made in the grantee's fiscal management practices.

**Recommendation 3:**

**The draft audit report recommends OHS impose special award conditions on Lake County so that it takes corrective actions to ensure that payroll distribution policies, procedures, and processes reflect actual work performed.**

Lake County provided notification it is relinquishing the EHS grant effective July 31, 2012. Since no further grant awards will be issued to Lake County, OHS and OGM do not plan to impose any special award conditions. However, OHS and OGM continue to work with Lake County to ensure payroll distribution policies, procedures and processes reflect actual work performed. Consultant reports confirmed Lake County developed a plan to ensure policies and procedures for payroll distribution met the Federal requirements.

To confirm the agency fully implemented the changes in its financial management systems and procedures, the OHS and OGM will instruct the grantee to direct its independent auditor to review each of the audit findings and recommendations in OIG's draft report as part of the A-133 single audit for the period ending August 31, 2012.

We are available to meet with you to discuss our positions with you and answer any questions you may have. Thank you for the opportunity to comment on the draft report.

cc: Ann Linehan, Deputy Director  
Office of Head Start